

**EMERGENCY ROAD AND WATER-SUPPLY INFRASTRUCTURE PROJECT**

**(HO-0143)**

**EXECUTIVE SUMMARY**

**BORROWER AND GUARANTOR:** Republic of Honduras

**EXECUTING AGENCY:** Ministry of Public Works, Transport, and Housing and National Water and Sewerage Authority (SANAA)

**AMOUNT AND SOURCE:** IDB: (FSO) US\$18.8 million  
(Reformulated): US\$ 7.0 million (see paras. 3.12, 3.13 and 3.14 of proposal)  
Local counterpart contribution: US\$ 2.9 million  
Total: US\$28.7 million

**FINANCIAL TERMS AND CONDITIONS:** Amortization period: 40 years  
Disbursement period: 18 months  
Interest rate: 1% first 10 years  
2% subsequent 30 years  
Inspection and supervision: 1%  
Credit fee: 0.5%

**OBJECTIVES:** The project's objective is to alleviate the economic, social, and environmental impact of the damage caused by Hurricane Mitch to Honduras's road and water-supply infrastructure, and lessen the associated cost.

The specific objectives are to: (a) help repair several sections of the country's paved main and secondary road network; (b) rehabilitate or replace bridges in the city of Tegucigalpa and on the Tegucigalpa-San Pedro Sula highway; and (c) restore Tegucigalpa's drinking-water system through the supply and installation of piping and equipment.

**DESCRIPTION:** The **roads subproject** (US\$17.7 million) will include: (a) work to repair about 380 km of the paved main and secondary road system; (b) rehabilitation of 15 bridges (760 m); (c) construction of two bridges (80 m) in Tegucigalpa; and (d) institutional strengthening of the Ministry of Public Works, Transport, and Housing (SOPTRAVI) and the Ministry of Natural Resources and Environment (SERNA).

The **water-supply subproject** (US\$11 million) will fund the following: (a) supply and laying of about 36,400 m of ductile iron pipe for main conveyance lines and 14,000 m of PVC pipe for water and sewer lines; and (b) supply and installation of pumping equipment and fittings.

**THE BANK'S STRATEGY:** The IDB support proposed here is in line with the objectives and guidelines set out in the Bank's policy on emergencies arising from natural and

unexpected disasters (OP-704), which was approved by the Board of Executive Directors in November 1998. In particular, it is consistent with the objectives of swiftly repairing damaged infrastructure, providing essential services of the requisite quality and safety standards, and restarting normal economic activity. The focus of the planned civil works is the repair and some initial rehabilitation of infrastructure to restore service; they would mark the first stage in a permanent reconstruction and rehabilitation effort.

**ENVIRONMENTAL AND  
SOCIAL REVIEW:**

In the roads sector, the project will fund repairs to existing roads in areas that have already been developed and worked on; the roads subproject thus would have no adverse environmental or social impact.

The likely impacts in the course of the roadwork will be localized, modest, short-lived, foreseeable, and mitigable. No community resettlements or major road realignments are envisaged.

Two experts will be hired to speed up the environmental assessment of road works, one for SOPTRAVI and the other for SERNA. For the water-supply component, in which the reconstruction effort is especially urgent, SERNA has given authorization, by way of an arrangement under the National Environmental Impact System, for work to begin, adhering to guidelines and standards to prevent and mitigate environmental impacts, with environmental permits to be arranged subsequently where necessary.

The Bank's Committee on Environment and Social Impact approved the environmental elements of this project on December 15, 1998.

**BENEFITS:**

The program funds would pay for emergency repairs to the paved main and secondary road system which carries the bulk of the country's traffic, connects production centers and the larger domestic markets, and links Honduras with other countries. The planned investments would therefore yield considerable benefits by quickly restoring the service capacity of highways and roads.

The benefits sought by the water-supply component, which would restore drinking-water service to those who have no safe water source since the hurricane, would be: (a) a lower health risk to those population groups; (b) lower costs of securing water through alternative solutions; and (c) less need to resort to potentially hazardous alternative sources of water, particularly in a setting of general environmental degradation owing to incomplete coverage and the poor state of repair of sanitation and waste-treatment systems.

**RISKS:**

The following are the chief risks of the project: (a) possible lack of implementing capacity in the public sector (particularly SANAA) and of installed capacity available in Honduran private construction firms; (b) uncertainty as to the true magnitude of the repair costs, this being a particular concern in the bridge component, in which eventual soil settling

is a major cost factor; and (c) SERNA's lack of capacity and experience to ensure that due attention is given to environmental considerations, and possible conflicts between what may be the best approach from a technical standpoint and the understandable approach that the work needs to be done quickly.

**EXCEPTIONS TO  
BANK POLICY:**

It is recommended that the firm that will be conducting concurrent audits of the project be engaged by way of a restricted call for proposals (see para. 4.26).

That same procedure is recommended for the purchase of ductile iron pipe and fittings for subprogram II, at a cost of up to US\$4 million (see para. 4.19).

It is recommended that retroactive financing, drawn on the loan proceeds, be authorized to contract the Jícaro Galán-Cholulteca section in the amount of US\$218,800 ¢ in excess of the ceiling for direct contracts ¢ for this emergency operation (see para. 4.24).

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Conditions precedent to the first disbursement: (a) entry into force of the project's Operating Regulations (see para. 4.5); (b) hiring of a firm for concurrent auditing of the project (see para. 4.26); and (c) proposal with mechanism to ensure rapid and timely access by executing units to revolving fund resources (see para. 4.28).

Conditions precedent for subproject I: (a) signature of an agreement between SOPTRAVI and SERNA for management of environmental matters under this subproject (see para. 4.11); (b) hiring by SERNA, using project funds, of an expert to assist the latter in connection with environmental matters under this subproject; and (c) hiring of consulting services to support SOPTRAVI in engineering and environmental matters (see para. 4.6).

Conditions precedent for subproject II: (a) hiring of the subproject manager (see para. 4.7); and (b) signature of an agreement between the Ministry of Finance and SANAA to pass on proceeds of the loan, setting out that executing agency's obligations for subproject II (potable water supply), including the furnishing of local counterpart funds.

Disbursement to start off the project activities: Before the special conditions precedent to the first disbursement have been satisfied the Bank may disburse up to US\$1.5 million to start off the project activities (see para. 4.29).

Contractual covenants: (a) For subproject I: the Bank may approve up to US\$1 million in retroactive financing and up to US\$500,000 in expenditures incurred on or after October 30, 1998, for recognition against the local counterpart (see para. 4.24); (b) before any subproject I roadwork can begin, consultants must have been engaged to supervise that work; (c) a revolving fund for each

subproject, in the amount of up to the equivalent of 20% of the subproject financing amount, will be established (see para. 4.28); and (d) for purposes of the Bank's General Conditions, the semiannual reports on the project will be those submitted by the firm engaged for concurrent auditing of the project (see para. 4.22).

**POVERTY IMPACT AND  
SOCIAL-SECTOR  
CLASSIFICATION:**

This project qualifies as poverty-targeted under the terms of the Eighth Replenishment document (AB-1704), from a geographical standpoint: about 75% of residents of the service areas of the targeted roads live below the poverty line (see para. 5.7).

**PROCUREMENT:**

Until October 30, 1999, that date marking the 12-month anniversary of the declaration of the state of emergency, goods, construction work, and consulting services would be obtained following the procurement procedures for emergency projects recently approved by the Board of Executive Directors (set out in document GP-92-15). Those procedures will be presented in an annex to the loan contract which will govern all elements of the procurement process, without the need for subsidiary recourse to Honduran law. As from October 31, 1999, the Bank's standard procurement and contracting procedures will apply. Thresholds for international competitive bidding will be US\$3 million for works, US\$350,000 for goods, and US\$200,000 for consulting services.